

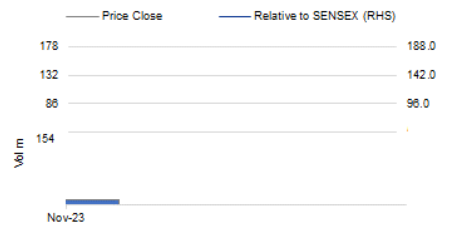
India

ADD (no change)

Consensus ratings*: Buy 16 Hold 3 Sell 3

Current price:	Rs392
Target price:	Rs437
Previous target:	Rs660
Up/downside:	11.5%
InCred Research / Consensus:	-19.7%
Reuters:	
Bloomberg:	SYRMA IN
Market cap:	US\$834m
	Rs69,693m
Average daily turnover:	US\$3.8m
	Rs321.1m
Current shares o/s:	176.8m
Free float:	51.6%

*Source: Bloomberg



Price performance	1M	3M	12M
Absolute (%)	(19.6)	(22.0)	25.4
Relative (%)	(18.0)	(23.1)	6.9

Major shareholders	% held
Promoters	46.9
Franklin India	1.6
Government Pension Global	1.4

Syrma SGS Technology

Sailing in two boats

- Syrma SGS posted dismal profits in 4QFY24, with a mere 5% YoY growth in PAT and a 24% growth in EBITDA, despite a 67% YoY growth in revenue.
- NWC days increased, which led to lower cash flows and hence, the company had to resort to debt, which again led to higher interest costs and a lower PAT.
- We believe Syrma SGS is trying to be both Kaynes and Dixon, leading to margin and working capital problems. Retain ADD with a lower TP of Rs437.

Syrma SGS caught in a vicious cycle of working capital and debt

Syrma SGS' net working capital or NWC days increased from 88 in FY23 to 95 in FY24. This was mainly due to a high inventory on its books. As a result of deteriorating NWC, the company had to incur debt, which is resulting in higher interest costs and hence, lower PAT growth. This trend suggests that the company is prioritizing revenue growth instead of RoCE and hence, the same is expected to stay subdued in the medium term. This could be a potential derating trigger for the stock.

Gross margin collapse suggests price war among competitors

In the EMS space, gross margins are a reliable indicator of the barriers to entry and potential price wars among competitors. For Syrma SGS, even though the EBITDA margin improved marginally, gross margin declined significantly. In the consumer space, where Syrma SGS mainly has exposure to the clients having two or three suppliers, the only differentiating factor between them is the price. A decline in gross margin suggests that competitors are undercutting Syrma SGS and hence, to gain revenue, they must take a cut in gross margin.

Potential Chinese risks always on the cards

Syrma SGS does the assembly of plain vanilla bare PCB boards, where there is absolutely no barrier to entry. Secondly, this space always has the risk of dumping by Chinese players at low prices, as the Indian government currently has no ADD (Anti-Dumping Duty) for PCB assembly imports from China (duty is on bare PCB imports). China has a much better electronics ecosystem compared to India, ranging from home-grown chip manufacturers and OSAT. As a result, Chinese companies will tend to have a significant cost advantage over Indian players due to better supply chain and hence, this always will be a risk.

Concerns remain on the business model; TP lowered to Rs437

We believe there is a fundamental flaw with Syrma SGS' business model as it tries to imitate both Dixon Technologies and Kaynes Technology. Manufacturing at scale is more important for the consumer segment whereas quality and precision matters more for the automotive and industrial sectors. We maintain our revenue estimates but lower EBITDA/PAT by 10%/11% for FY25F and 17%/19% for FY26F. We value the stock at 28x (from 37x) FY26F EPS to arrive at a lower target price of Rs437 (Rs660 earlier). Retain ADD rating. Key downside risks include further deterioration of working capital leading to higher debt.

Research Analyst(s)

Arafat SAIYED
T (91) 22 4161 1542
E arafat.saiyed@incredcapital.com

Vipraw SRIVASTAVA
T (91) 22 4161 1565
E vipraw.srivastava@incredresearch.com

Anirvan DIVAKERA
T (91) 02241611548
E anirvan.divakera@incredresearch.com

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	10,197	20,484	31,538	45,032	63,025
Operating EBITDA (Rsm)	944	1,878	1,984	3,010	4,149
Net Profit (Rsm)	567	1,231	1,257	1,943	2,760
Core EPS (Rs)	3.2	7.0	7.1	11.0	15.6
Core EPS Growth	(13.5%)	117.3%	2.1%	54.6%	42.1%
FD Core P/E (x)	122.42	56.35	55.20	35.70	25.13
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	75.26	38.52	37.80	24.03	17.45
P/FCFE (x)	(22.96)	(8.33)	79.78	47.34	42.62
Net Gearing	27.0%	19.0%	29.7%	12.3%	11.1%
P/BV (x)	12.13	4.50	4.30	3.84	3.33
ROE	13.9%	11.7%	8.0%	11.4%	14.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call takeaways

- **Guidance:** The company expects a ~40% revenue growth and a ~7% EBITDA margin in FY25F. Exports to grow by 30% YoY. Net working capital stabilized at about 70 days based on the average and ~80 odd days based on the year-end figures and the company plans to bring it down further over the next few quarters with the target of ~60 days level. Exports stood at US\$100m, up 26% from FY23.
- **Capacity:** Capacity increased to 6.3m/hr placements from 5.2m/hr. The company has set up a 40,000 sqft integration facility in Germany. It will also move the manufacturing to Germany in the coming years. The company incurred ~Rs2.5bn capex in Fy24 and is likely to incur another Rs1.5bn to Rs1.8bn in FY25F for the Pune project and other projects.
- **Return ratios:** RoCE for the year is about 15.4% when the company calculates it, excluding the unutilized IPU funds and goodwill from the balance sheet. Operating cash flow for the year is negative, mainly because of incremental investments in working capital on the back of higher business growth likely in the coming quarters.
- **Lower margin due to consumer business:** Broadly speaking, individual customer-wise margins have not yet declined. The change in the mix in consumer business during the quarter contributed almost 46%, which resulted in some impact on the overall gross margin. Within the same sector, the electric vehicle or EV sub-sector contributed a larger sum to the automobile sector, which also impacted margins. This is where the overall change in the mix impacted on the gross margin. The margin profile is lower for telecom products in the consumer space.
- **Order book:** It stood at ~Rs45bn, of which exports contributed ~22% to 25%. The consumer segment contributed 40% to the order book followed by the industrial segment's 25% and the automobile segment's 22%. Consumer business is not a low RoIC business. The company is expecting higher sales in the telecom business in the coming quarters and hence, in anticipation of sales, has invested in working capital.

Figure 1: Change in our estimates

(Rs m)	Old estimates		New estimates		Change	
	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Revenue	43,993	60,627	45,032	63,025	2.4%	4.0%
EBITDA	3,337	4,991	3,010	4,149	-9.8%	-16.9%
Core PAT	2,189	3,392	1,943	2,760	-11.2%	-18.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin analysis

Cost Analysis	4QFY24	4QFY23	YoY	3QFY24	QoQ
Total Raw Material Costs	82.8%	78.5%	430 bp	77.4%	538 bp
Staff Costs	3.6%	3.9%	-39 bp	5.4%	-182.6 bp
Other Expenditure	7.1%	8.8%	-170 bp	11.7%	-456.1 bp
Total Expenses	93.5%	91.3%	222 bp	94.5%	-100.7 bp
Tax Rate (%)	26.1%	37.1%	-1,096 bp	24.8%	134.9 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: NWC days rising for Syrma SGS

Working capital days	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Inventories	76	90	77	30	32	112	105	116
Trade Receivables	87	112	99	51	53	104	72	108
Short-term Loans and Advances	32	21	4	-	-	3	1	-
Other Current Assets	1	1	14	11	12	22	18	26
Trade Payables	82	112	96	54	55	102	96	151
Other Current Liabilities	33	36	23	26	23	36	19	13
Short-term Provisions	1	2	2	1	1	3	4	1
NWC days	87	74	72	21	29	106	88	95

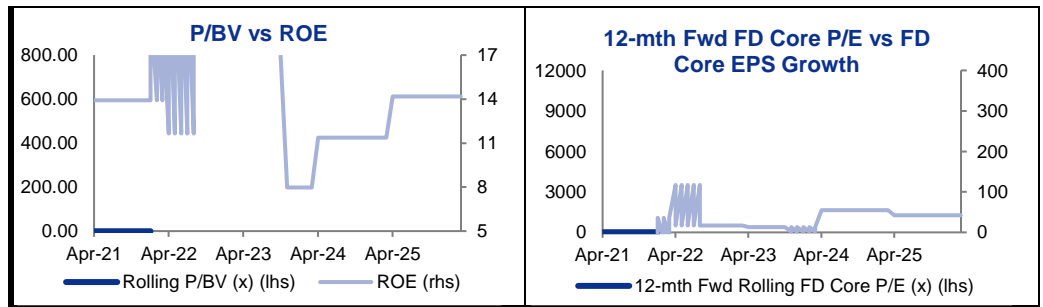
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: 4QFY24 results snapshot

(Rs m)	4QFY24	4QFY23	YoY	3QFY24	QoQ
Net Revenue	11,341	6,795	67%	7,067	60%
Raw Material Costs	9,393	5,336	76%	5,473	72%
Staff Costs	403	268	51%	381	6%
Other Expenditure	808	599	35%	826	-2%
Total Expenses	10,604	6,203	71%	6,679	59%
EBITDA	737	592	24%	388	90%
OPM (%)	6.5%	8.7%	-222 bp	5.5%	100.7 bp
Other Income	156	216	-28%	121	29%
Interest	123	39	215%	100	22%
Depreciation	158	88	79%	139	14%
PBT	612	681	-10%	270	127%
Tax	160	252	-37%	67	139%
PAT	452	429	5%	203	123%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	10,197	20,484	31,538	45,032	63,025
Gross Profit	3,012	5,079	6,469	9,232	12,731
Operating EBITDA	944	1,878	1,984	3,010	4,149
Depreciation And Amortisation	(194)	(312)	(515)	(659)	(758)
Operating EBIT	750	1,566	1,469	2,351	3,391
Financial Income/(Expense)	(64)	(216)	(378)	(362)	(346)
Pretax Income/(Loss) from Assoc.	25				
Non-Operating Income/(Expense)	123	437	587	602	635
Profit Before Tax (pre-EI)	834	1,787	1,678	2,591	3,681
Exceptional Items					
Pre-tax Profit	834	1,787	1,678	2,591	3,681
Taxation	(268)	(556)	(421)	(648)	(920)
Exceptional Income - post-tax					
Profit After Tax	567	1,231	1,257	1,943	2,760
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	567	1,231	1,257	1,943	2,760
Recurring Net Profit	567	1,231	1,257	1,943	2,760
Fully Diluted Recurring Net Profit	567	1,231	1,257	1,943	2,760

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	809	1,787	1,664	2,591	3,681
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(659)	(2,299)	(3,273)	618	(2,384)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	194	312	515	659	758
Other Operating Cashflow	(31)	(321)			
Net Interest (Paid)/Received	64	216	378	362	346
Tax Paid	(232)	(397)	(421)	(648)	(920)
Cashflow From Operations	145	(703)	(1,136)	3,581	1,480
Capex	(817)	(1,110)	(3,249)	(1,350)	(1,200)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(3,120)	(8,035)	2,967	549	1,497
Cash Flow From Investing	(3,936)	(9,145)	(282)	(801)	297
Debt Raised/(repaid)	769	1,523	2,288	(1,315)	(150)
Proceeds From Issue Of Shares	2,715	8,760			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	103	(316)	(741)	(362)	(346)
Cash Flow From Financing	3,587	9,967	1,547	(1,676)	(496)
Total Cash Generated	(204)	120	128	1,104	1,282
Free Cashflow To Equity	(3,022)	(8,325)	870	1,466	1,628
Free Cashflow To Firm	(3,855)	(10,063)	(1,797)	2,418	1,432

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	369	544	784	2,139	1,924
Total Debtors	2,722	4,032	9,301	6,503	8,733
Inventories	2,913	5,874	10,043	9,860	13,322
Total Other Current Assets	645	1,032	2,207	1,930	2,723
Total Current Assets	6,650	11,483	22,335	20,431	26,702
Fixed Assets	1,487	4,127	5,965	6,803	7,245
Total Investments	51	60	64	64	64
Intangible Assets	1,197	1,218	3,450	3,450	3,450
Total Other Non-Current Assets	534	7,779	4,007	4,007	4,007
Total Non-current Assets	3,269	13,184	13,487	14,325	14,767
Short-term Debt	1,903	2,599	5,118	3,449	3,299
Current Portion of Long-Term Debt					
Total Creditors	2,405	4,881	12,232	8,432	11,610
Other Current Liabilities	845	962	1,056	1,851	2,609
Total Current Liabilities	5,153	8,442	18,407	13,732	17,518
Total Long-term Debt	39	870	645	1,000	1,000
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	252	284	722	722	722
Total Non-current Liabilities	291	1,154	1,367	1,722	1,722
Total Provisions	269	387	350	714	880
Total Liabilities	5,713	9,983	20,124	16,168	20,120
Shareholders Equity	5,721	15,403	16,126	18,069	20,830
Minority Interests	108	26	644	644	644
Total Equity	5,829	15,429	16,770	18,714	21,474

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	14.9%	100.9%	54.0%	42.8%	40.0%
Operating EBITDA Growth	(5.5%)	98.9%	5.7%	51.7%	37.8%
Operating EBITDA Margin	9.3%	9.2%	6.3%	6.7%	6.6%
Net Cash Per Share (Rs)	(8.90)	(16.54)	(28.17)	(13.07)	(13.43)
BVPS (Rs)	32.36	87.13	91.22	102.21	117.83
Gross Interest Cover	11.77	7.25	3.88	6.50	9.81
Effective Tax Rate	32.1%	31.1%	25.1%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	71.61	60.18	77.16	64.05	44.12
Inventory Days	93.56	104.10	115.87	101.46	84.12
Accounts Payables Days	90.24	86.31	124.58	105.34	72.73
ROIC (%)	9.0%	6.4%	5.1%	7.9%	10.0%
ROCE (%)	13.9%	11.6%	7.0%	10.2%	13.8%
Return On Average Assets	8.4%	8.1%	5.1%	6.3%	7.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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